

S
353.69
W20SBP
2001
C. 2

2001 Strategic Business Plan

July 1, 2000 through June 30, 2001



Our Mission: Montana's insurance carrier of choice and industry leader in service.

STATE DOCUMENTS COLLECTION

AUG 30 2005

MONTANA STATE LIBRARY
HELENA, MONTANA 59620

MONTANA
STATEFUND

Montana State Library



3 0864 1003 4816 1

Table of Contents

<i>From the President</i>	2
<i>Executive Summary</i>	3
1. Strategic Framework – Mission, Vision and Guiding Principles	4
2. Organizational Profile	6
3. Priority Issues	7
4. Strategic Priorities	8
5. Strategic Goals	9
6. Strategic Initiatives	11
7. Financial Projections	12

From the President . . .

On behalf of the board, management, and staff of the Montana State Fund, I am pleased to submit our *Strategic Business Plan* for Fiscal Year 2001. This document defines our strategic priorities and corporate goals.

Even though the State Fund has completed an annual strategic business planning process since 1994, we have continuously sought ways to make the resulting plan a more useful management tool. Toward that end, we made a number of significant structural changes in the Fiscal Year 1999 plan that were designed to achieve a more even balance between strategic and operations initiatives.

For Fiscal Year 2001, we have once again made a number of modifications to our strategic and business planning approach. Most of these changes are directed at facilitating the State Fund's transition to becoming a much more entrepreneurial organization. In addition, the changes are designed to enhance the empowerment of our employees to carry out their goals with greater authority. We have also involved more of our employees in the planning process. And finally, the modified approach should strengthen the balance between strategic development and implementation.

As we completed our strategic planning process, we launched a far-reaching strategic initiative to redesign and

reorganize the State Fund with a key focus on strengthening delivery of services to our customers. The most significant part of this initiative will be a corps of employees empowered with decision-making authority at the lowest appropriate level. We expect the results of both our strategic planning and our redesign efforts to be a State Fund that continues to make steady progress in achieving its mission, vision, and strategic goals.

I want to commend both our senior management and the departmental planning teams for contributing the extra energy and creativity to successfully complete this process on a very ambitious schedule. It is this kind of dedication that enables the State Fund to be effective in serving the needs of our customers and stakeholders.

---Carl Swanson
President and Chief Executive Officer

Executive Summary

The existence of a financially viable Montana State Fund is critical to a healthy and competitive workers' compensation insurance market in Montana. In its Strategic Business Plan for Fiscal Year 2001, the State Fund's primary focus is on maintaining our status as a driving force in the workers' compensation industry in Montana.

To accomplish this, the State Fund will redesign its organizational structure and methods of doing business, maintain its financial strength, and improve its competitive position. We will provide increased decision-making authority to employees at the lowest appropriate level, and increase skill development for our employees. Finally we will continue to realize efficiencies in the conduct of day-to-day business.

All of these strategic and operational initiatives will enable the State Fund to better retain existing business and recruit new customers to maintain a balanced book of business, competitive rates, and financial stability.

The State Fund insures all employers regardless of size or risk. However, competition by the State Fund for larger customers is necessary since without a "sharing of the risk" concept, rates would not be affordable for many small businesses. It is therefore necessary for the State Fund to compete on the basis of price, product, and service. Having a viable State Fund in Montana means that

premiums charged are more competitive for all Montana businesses, since we provide an option for any employer to purchase their mandatory workers' compensation coverage.

A financially strong State Fund offers additional benefits, including returning any surplus beyond what is needed for prudent business operations in the form of dividends to Montana employers. In addition, a strong State Fund is an important part of creating and sustaining healthy competition in the market place. Not only do we provide a stable market for small employers, but we also support competitive rates for larger employers. In short, the State Fund is an investment that returns significant benefits to Montana business.

The FY 2001 Strategic Business Plan identifies four critical strategic priorities for the State Fund that will allow it to enhance its performance in the following areas:

- Customer satisfaction
- Competitive position
- Financial position
- Corporate position

The State Fund will carry out a series of goals and strategic initiatives that will enable it to fulfill its mission of being "Montana's insurance carrier of choice and industry leader in service."

1. Strategic Framework

Mission

The State Fund is Montana's insurance carrier of choice and industry leader in service.

Vision

The State Fund's vision is a healthy and competitive workers' compensation insurance market where Montana businesses have an option to obtain competitively priced products and high quality service. The State Fund, by maintaining financial strength and superior service, is a competitive driving force in the market place able to weather fluctuating market conditions and the entry and exit of private insurers (the insurance cycle).

To achieve this vision, the Montana State Fund will:

- Make available to all Montana business operations a stable market for workers' compensation, occupational disease and employers' liability coverage, through cycles in the insurance market.
- Foster and support a competitive insurance market in Montana.
- Create customer loyalty by providing superior service to our policyholders, injured workers, and insurance producers, and

enhance and maintain a partnership with stakeholders in the true spirit of cooperation.

- Deliver high quality insurance products to Montana business operations at the lowest possible cost consistent with sound insurance principles.
- Maintain adequate rate levels, financial strength and stability.
- Foster a customer-focused, team-oriented, high performance culture that rewards, satisfies, empowers, and challenges our employees.
- Enter into strategic partnerships when they can improve service and products to our customers.

Guiding Principles

- The State Fund is known for having a strong character of integrity and ethical conduct.
- The State Fund maintains a strong financial position to ensure continued long term stability and financial solvency based on actuarial sound rates and reserves.
- The State Fund furnishes and markets high quality insurance

services and products at appropriate and competitive prices. In doing so, the State Fund basically functions as a private insurer asserting its competitiveness within the framework of maintaining a healthy financial position, and competitively priced products based on sound rates.

- The State Fund has a performance driven culture and continuous improvement work environment, which is conducive to the development and growth of its employees.

2. Organizational Profile

The State of Montana originally established the Montana State Fund in 1915 as a workers' compensation insurance carrier. Since then, the State Fund has assumed several different forms, with its current structure resulting from actions taken in 1990, when a system reorganization separated the workers' compensation regulatory functions (which were established in the Department of Labor and Industry) from the insurance responsibilities (which were vested in a separate State Fund). The State Fund is governed by a seven-member board of directors appointed by the Governor, and an executive director appointed by the board.

Today, the State Fund is a self-sufficient, nonprofit, workers' compensation insurance carrier. Its statutory purpose is to be a competitive insurance carrier, provide an available market, and guarantee coverage to all employers in Montana. The State Fund receives no taxpayer or general fund money and operates solely on premium dollars paid by employers who are insured with us. As a result, the State Fund functions like a private insurance carrier in a competitive marketplace and as provided in law, performs all functions and exercises all powers of a private insurance carrier that are necessary, appropriate or convenient for the administration of the State Fund.

The State Fund is a leading force in Montana workers' compensation insurance through competitive pricing, improved service, and a strong financial condition. The organization is an active partner with the employers it insures and the injured workers it serves to deliver high quality workers' compensation products and services. We have been successful in reducing premium rates, helping achieve safer work places, and establishing a well-managed insurance organization.

3. Priority Issues

Priority issues are those select strengths, weaknesses, opportunities, or threats that must be dealt with by the organization because: (1) they have high, long-term impact on profitability or competitive advantage; and (2) timing is critical and quick action is essential to take advantage of fleeting or rapidly developing situations.

The State Fund's priority strategic issues for FY 2001 include:

- 1. *Redesign and Reorganization for Customer Focus* -- Reralign strategies, systems, organizational structure, work processes, around an empowered workforce of employees with increased decision-making authority in order to be more responsive to customer needs and expectations.
- 2. *Information Systems* – Continue to enhance the functionality and utility of the State Fund's information systems to produce improved management, accessibility, and utility of data and information to better meet the organization's business goals.
- 3. *Distribution System* – Continue to build on our agency distribution and delivery system,
- 4. *Ease of doing business* – Make it as easy as possible for partners and customers to do business with us through use of technology and "user friendly" documents.
- 5. *Marketing Strategy and Capabilities* – Upgrade and expand the State Fund's marketing strategy and capacity to become more competitive in the marketplace. The existence of a financially viable State Fund that insures a balanced cross section of Montana business is critical to a healthy and competitive workers' compensation system in the state, which in turn promotes a healthy business climate.

with a focus on improved interface with our agent partners.

4. Strategic Priorities

Strategic priorities include matters that are long term and structural in nature and define the fundamental ways that an organization will conduct business in the future. They are typically ranked in order to guide resource allocation to key markets, products, and customers.

The State Fund will focus on the following priorities in FY 2001 in order to continue to meet our customer's needs in a dynamic workers' compensation insurance environment.

- Customer Satisfaction*** – Continue to strengthen the State Fund's customer focus, service, and satisfaction through our organizational restructuring and alignment.
- Corporate Position*** – Continue to upgrade and update the State Fund's corporate capabilities with a focus on employee skills, legislative initiatives and systems methodology.
- Competitive Position*** – Continue to develop the State Fund's competitive advantage and position in the marketplace through our organizational restructuring and alignment.
- Financial Position*** – Continue to strengthen and accentuate the State Fund's financial strength in the marketplace.

5. Strategic Goals

Strategic goals define what the State Fund plans to accomplish as a successful workers compensation insurer. They are measurable in terms of time, quality, quantity, and/or dollars.

The following goals are the key performance indicators the State Fund will use to measure strategic and financial success for fiscal year 2001.

<i>Strategic Priority</i>	<i>Strategic Goals</i>
Customer Satisfaction	<ol style="list-style-type: none">1. Complete an externally conducted survey to establish a base line and an updated benchmark for measuring injured worker satisfaction.2. Complete an externally conducted survey to establish a base line and an updated benchmark for measuring policyholder satisfaction.
Competitive Position	<ol style="list-style-type: none">3. Increase net business by 1.0 % or more in earned premium.4. Achieve a level of business retention of 85% or more (earned premium).
Financial Position	<ol style="list-style-type: none">5. Achieve the following targeted financial results:<ol style="list-style-type: none">5.1 Achieve targeted best estimate net income for FY 2001 of \$11.4 million before dividend with a minimum net income target of \$10.4 million.5.2 Achieve targeted best estimate surplus for FY 2001 of \$159.3 million before dividend with a minimum surplus target of \$158.3 million. Targeted Surplus Level of greater than or equal to \$170 million by FY03.

	<p>5.3 Industry Ratios: (Best Estimate)</p> <ul style="list-style-type: none"> ▶ Premium to Surplus of less than or equal to 0.44 for FY01 (before dividend.). ▶ Reserve to Surplus of less than or equal to 2.0 for FY01 (before dividend). ▶ Risk Based Capital (RBC) greater than or equal to 450% of company action level for FY01. ▶ Net leverage equal to or less than 3.0 for FY01.¹
Corporate Focus	<p>6. Achieve Redesign targets as follows:</p> <p>6.1 Design team completes review, presents findings and recommendations to the Steering Committee, with final design report completed by July 1, 2000.</p> <p>6.2 Design phase implementation plan approved by President by July 10, 2000.</p> <p>6.3 Conduct a Prioritization and Integration Workshop for Design Team and Steering Committee to complete a refined implementation plan coordinated with other initiatives within State Fund by July 15, 2000.</p> <p>6.4 Implement key President approved recommendations (based on approved implementation timeline) for new organization structure and processes by June 30, 2001.</p> <p>7. Maintain or improve upon employee satisfaction levels in 9 out of 14 categories of high performance organizations by FY02. (Current industry results reflect State Fund employees meet or exceed in 8 out of 14 categories for high performance national normative scores and meet or exceed industry norms in 11 out of 14 categories for national normative scores.).</p>

¹ Net leverage is the measure of net liabilities (net of liability for securities on loan which is offset by an asset for securities on loan) plus net earned premium divided by policyholder surplus

6. Strategic Initiatives

Strategic initiatives are the means that the State Fund will use to achieve its strategic goals.

<i>Strategic Initiative</i>	<i>Strategic Priorities Addressed</i>
1. <i>Reorganization and Redesign for Customer Focus</i> – Redesign structure, systems and work processes to improve the State Fund's responsiveness to customer needs and expectations.	Customer satisfaction Competitive position Financial position Corporate Focus
2. <i>Knowledge Management</i> – Implement a data warehouse to provide management reports and trending information to enhance the State Fund's business management capabilities and performance.	Competitive position Corporate focus
3. <i>Information Technology Methodology</i> – Develop IT methodology plans to implement and support best practices. Effort will be in conjunction with the IT redesign subcommittee with consideration given to a comprehensive and appropriate program management plan, configuration management plan, software development management plan, and quality assurance management plan.	Corporate focus
4. <i>Ease of Doing Business</i> – Improve business practices by improving forms, programs and procedures in key areas to enhance the ease of doing business with the State Fund.	Customer satisfaction Competitive position
5. <i>Marketing Strategy and Capabilities</i> – Improve and expand marketing and sales capabilities, strategies, and programs.	Customer satisfaction Competitive position Financial position

7. Financial Projections

PROJECTED RESULTS OF OPERATIONS

MONTANA STATE FUND

Statutory Basis

Operating Statement

	Actual	Best Estimate			
	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
Premium Income	\$70,170	\$69,324	\$70,507	\$75,392	\$82,547
Investment & Other Income	30,494	30,397	29,416	30,641	32,412
Total Losses and Expenses	66,131	91,631	88,459	93,760	99,116
Transfer to General Fund*	10,000				
Policyholder Dividend	9,992	6,950	TBD	TBD	TBD
Net Income	\$14,541	\$1,141	\$11,464	\$12,273	\$15,843

* FY 99 includes the \$10 million transfer to the State General Fund in accordance with provisions of 39-71-2320 (2), MCA.

TBD - Future dividends to be determined by the Board of Directors

Premium to Surplus Ratio (X : 1) (a)	0.49	0.49	0.44	0.43	0.42
Loss Reserve to Surplus Ratio (X : 1) (a)	2.14	2.21	2.04	1.93	1.77
Fiscal Year Combined Ratio (Loss + LAE + Underwriting)	94.24%	132.18%	125.46%	124.36%	120.07%
Operating Transfr Out (\$10 mill to GF)	14.25%	0.00%	0.00%	0.00%	0.00%
Dividend effect	14.24%	10.03%	TBD	TBD	TBD

Balance Sheet

Total Assets	<u>\$569,952</u>	<u>\$581,810</u>	<u>\$605,627</u>	<u>\$631,515</u>	<u>\$667,417</u>
Unpaid Losses and					
Loss Adjustment Expenses	\$303,500	\$316,333	\$325,157	\$336,796	\$350,007
Other Liabilities	124,675	122,560	121,156	120,011	119,142
Total Liabilities	\$428,175	\$438,893	\$446,313	\$456,807	\$469,149
Surplus*	\$141,777	\$142,917	\$159,314	\$174,708	\$198,268
Total Liabilities and Surplus	\$569,952	\$581,810	\$605,627	\$631,515	\$667,417

* Surplus includes funds from the Old Fund in excess of the 10% loss contingency as required in 39-71-2352 (5), MCA, and will be reduced by impact of future dividends declared by the Board of Directors
(a) ratios prior to a dividend declared by the Board of Directors

Montana State Fund Board of Directors

Jim Brouelette, Chairman

Herb Leuprecht, Vice Chairman

Jack Morgenstern

Tom Horn

Lorretta Lynde

Brian Donahue

Wendy Susott

2001 Strategic Business Plan

July 1, 2000 through June 30, 2001



5 South Last Chance Gulch • P.O. Box 4759 • Helena, MT 59604-4759
800-332-6102 • 406-444-6500 • Fax: 406-444-7796 • <http://www.statefund.state.mt.us>

This document is printed at State Fund's expense. Photocopies of this document
can be obtained by writing Department of Administration, Helena, MT. © Montana State Fund